

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 EA-10 IO-13 ISO-00 AID-05 CEA-01
CIAE-00 COME-00 EB-08 FRB-03 INR-10 NSAE-00 SP-02
STR-07 TRSE-00 LAB-04 SIL-01 OMB-01 AGRE-00 PA-01
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R 162131Z FEB 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 4954
INFO ALL EC CAPITALS
AMEMBASSY BRASILIA
AMEMBASSY MANILA
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY VIENNA
AMEMBASSY WARSAW
USMISSION GENEVA

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USEEC

PASS AGRICULTURE ELECTRONICALLY
PARIS ALSO FOR USOECD
GENEVA ALSO FOR USMTN

E.O. 11652: N/A
TAGS: EAGR, EEC
SUBJ: RUMORED EC SALE OF SUGAR TO THE SOVIET UNION

1. THE FEBRUARY 9 ISSUE OF THE FRENCH AGRA EUROPE
REPORTS THAT ACCORDING TO RUMORS COMING FROM THE LONDON
TRADE, THE SOVIET UNION WILL HAVE MADE (WHEN ALL CONTRACTS
ARE TOTALED) THE LARGEST RECENT PURCHASE OF SUGAR ON THE
WORLD MARKET (AROUND 350,000 TONS). THE ARTICLE POINTS
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TO HIGHER-THAN-NORMAL AWARDS UNDER THE WEEKLY EC EXPORT
TENDERS FOR REFINED SUGAR IN RECENT WEEKS AS EVIDENCE
THAT THESE CONTRACTS HAVE BEEN COVERED BY EC TRADING
HOUSES. THE SOVIET TRANSACTIONS, ACCORDING TO THE
STORY, WERE CONCLUDED THROUGH INTERMEDIARIES IN
POLAND, THE PHILIPPINES AND BRAZIL.

2. THE EC COMMISSION USES A TENDER SYSTEM TO FIX SUGAR EXPORT SUBSIDIES (SEE COMMISSION REGULATION NO. 1654/77, OFFICIAL JOURNAL NO. L 181 OF 7/21/77). AFTER A WEEKLY REVIEW OF BIDS, WHICH SPECIFY BOTH THE SUBSIDY DESIRED AND THE QUANTITY TO BE EXPORTED, THE COMMISSION FIXES A MAXIMUM EXPORT SUBSIDY; ALL BIDS AT OR BELOW THAT LEVEL ARE ACCEPTED.

3. COMMENTING ON THE ARTICLE, COMMISSION OFFICIAL FAWCETT (SUGAR DIVISION) REITERATED THE BELIEF THAT THE SOVIET UNION HAD RECENTLY MADE SEVERAL PURCHASES OF EC SUGAR; HOWEVER, HE COULD NOT CONFIRM THE RUMOR BECAUSE EC TRADERS ARE NOT REQUIRED TO DIVULGE THE COUNTRY OF DESTINATION WHEN BIDDING FOR TENDERS. HE SAID THAT WHILE THERE HAS BEEN A SMALL INCREASE IN SALES, EC POLICY HAS BEEN TO HOLD WEEKLY AWARDS UNDER THE EXPORT TENDER SYSTEM WITHIN A REASONABLY NARROW BAND OF AROUND 50,000 TO 60,000 TONS. HE POINTED OUT, HOWEVER, THAT IN CONTRAST TO ACTUAL AWARDS, BIDS FOR WEEKLY TENDERS HAVE RECENTLY BEEN AT AROUND THE 200,000 TON LEVEL. HE CONCLUDED THAT TRADERS MUST HAVE A MARKET OUT THERE SOMEWHERE.

4. COMMISSION OFFICIAL FELT THAT IF THE USSR WERE IN THE MARKET FOR LARGE QUANTITIES OF SUGAR TO SUPPLEMENT ITS OWN HARVEST DEFICITS AND TO TAKE ADVANTAGE OF THE LOW WORLD PRICE, IT COULD AS USUAL BE MAKING WHATEVER ARRANGEMENTS NECESSARY (INCLUDING REEXPORTS THROUGH LIMITED OFFICIAL USE

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THIRD COUNTRIES) TO COVER ITS INTENTIONS AND KEEP THE MARKET UNDISTURBED. OFFICIAL ALSO SPECULATED THAT PURCHASES OF SUFFICIENT QUANTITIES OF CHEAP SUGAR ON THE WORLD MARKET WOULD BE CHEAPER FOR THE USSR THAN CARRYING THROUGH ON ITS BILATERAL TRADE ARRANGEMENTS FOR CUBAN SUGAR. IT WAS NOT INCONCEIVABLE, HE SAID, THAT THE SOVIET UNION MIGHT USE INTERMEDIARIES SUCH AS POLAND AND CZECHOSLOVAKIA TO OBTAIN THE EXTRA SUGAR IT DESIRED AND COMECON COUNTRIES WOULD BE DIFFICULT TO VERIFY. UNDER THE ISA, MEMBER COUNTRIES WOULD NOT BE ALLOWED TO IMPORT MORE THAN 55 PERCENT OF A 3-YEAR AVERAGE OF TOTAL IMPORTS FROM NON-MEMBER COUNTRIES IN EACH QUOTA YEAR DURING WHICH THE WORLD PRICE REMAINED BELOW 11 CENTS PER POUND. ACCORDING TO FAWCETT, UNDER THESE CONDITIONS, IMPORTS INTO THE USSR FROM NON-MEMBER COUNTRIES WOULD BE LIMITED TO 138,000 TONS FOR CY 78.

5. OFFICIAL HAD NO RATIONALE FOR ARTICLE REPORTS THAT BRAZIL AND PHILIPPINE INTERMEDIARIES WERE ALSO INVOLVED IN EC-USSR SUGAR TRADE AS BOTH WERE SEVERELY RESTRICTED BY THE ISA AS TO THE AMOUNT OF SUGAR THEY COULD EXPORT.

6. OFFICIAL INDICATED THAT THE EC'S EXPORTABLE SURPLUS FOR 1977/78 IS ESTIMATED AT AROUND 3.8 MILLION TONS.

ANY FURTHER INITIATIVES WITH REGARD TO JOINING THE ISA,
HE SAID, WOULD BE IMPOSSIBLE UNTIL AFTER THE EC PRICE
PACKAGE HAD BEEN NEGOTIATED AND A CLEARER PICTURE OF
THE EC'S OWN SUGAR POLICY EVOLVED. HINTON

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